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January 20, 2004

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JAN 20 2004
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Via HAND DELIVERY

The Honorable Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, NW
Washington, DC 20423

Re: **STB Docket No. 42057,** *Public Service Company of Colorado d/b/a Xcel Energy v. The Burlington Northern and Santa Fe Railway Company*
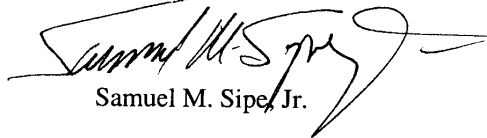
Dear Secretary Williams:

Enclosed for filing in the above-captioned matter are the original and ten copies of the Petition of The Burlington Northern and Santa Fe Railway Company for Leave to File Statement of Clarification ("Petition"). Attached to the Petition is The Burlington Northern and Santa Fe Railway Company's Statement of Clarification Regarding Allocation of Revenues Under the Density Adjusted Revenue Allocation Method ("Statement of Clarification") and an accompanying Verified Statement of John C. Klick and Benton V. Fisher ("Klick/Fisher Verified Statement"). Please note that this filing includes color documents in the attachments to the Klick/Fisher Verified Statement. These pleadings are public documents.

The Klick/Fisher Verified Statement is supported by electronic workpapers that contain Highly Confidential Information subject to the protective order that has been entered in this proceeding. Three copies of the compact disk containing those workpapers are included in this filing. Those CDs have been marked "Highly Confidential." Also included in this filing are three copies of a CD containing an electronic version of the Petition, Statement of Clarification and supporting Klick/Fisher Verified Statement. Those CDs have been marked "Public Documents."

- 1 -

Please date stamp the extra copy of the referenced pleading and return it with our messenger. If you have any questions regarding this matter, please contact the undersigned.
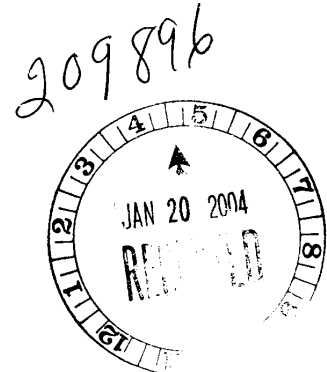
Sincerely,

Samuel M. Sipe, Jr.

Enclosures

cc: Counsel for Complainants

PUBLIC SERVICE COMPANY OF)
COLORADO D/B/A XCEL ENERGY)
)
          Complainant,   )
)
          v.   )   Docket No. 42057
)
THE BURLINGTON NORTHERN AND)
SANTA FE RAILWAY COMPANY   )
)
          Defendant.   )
)

PETITION OF THE BURLINGTON NORTHERN AND SANTA FE
RAILWAY COMPANY FOR LEAVE TO FILE
STATEMENT OF CLARIFICATION

Defendant The Burlington Northern and Santa Fe Railway Company ("BNSF") hereby

requests that the Board accept into the record of this proceeding the Statement of Clarification

that accompanies this Petition. BNSF's Statement of Clarification addresses the allocation of

revenues on cross-over traffic in light of the standards articulated by the Board in the recent

decision, *Duke Energy Corp. v. Norfolk Southern Railway Company*, STB Docket No. 42069

(served November 6, 2003) ("*Duke/NS*"). The grounds for this request are set out below.

The need to clarify the existing evidence in the record of this proceeding has come about

because of the Board's recent decision in the *Duke/NS* case. That decision provided significant

new guidance regarding the appropriate methodology for allocating revenue on cross-over traffic

between a stand-alone railroad and the residual incumbent. The decision in *Duke/NS* clarified

that a cost-based approach was the appropriate way to address the revenue allocation issue.

However, the Board rejected NS's particular cost-based approach because "NS has not shown

how its proposed formula would account for differences in fixed costs per mile." *Id.* at 22. The Board was concerned that NS's allocation of revenue in inverse proportion to density embodied an implicit assumption that fixed costs per route mile (by which the Board appeared to refer to below-the-wheel roadway investment) were the same regardless of the density of traffic moving over the lines. *Id.* at 21-22. The Board reached the same conclusion regarding NS's revenue allocation approach in *Carolina Power & Light Company v. Norfolk Southern Railway Company*, STB Docket No. 42072, at 20-21 (served December 23, 2003) ("*CP&L/NS*").

In light of the Board's statements in those cases, it is necessary for BNSF to explain that the Density Adjusted Revenue Allocation ("DARA") procedure that BNSF employed in this proceeding does not in fact embody the shortcoming that the Board perceived in the NS approach in the prior cases. The attached Statement of Clarification, supported by the Verified Statement of John C. Klick and Benton V. Fisher, shows that BNSF's revenue allocation methodology does not rest on an assumption that fixed (or below-the-wheel) costs are the same on low and high density lines. As explained in the attached Statement, the revenue allocated to cover variable costs in the first step of the two-step DARA procedure includes the variable portions of road property investment and depreciation developed by the Board's URCS costing procedure. The first step of the DARA procedure allocates substantially more revenue for coverage of road property investment per route mile to the heavy density on-SARR segments than to the light density off-SARR segments, consistent with the Board's belief that the costs of fixed (i.e. below the wheel) investments are higher on heavily used lines. *See Duke/NS* at 22.

Accepting BNSF's Statement of Clarification will enable the Board to decide this case based on a full understanding of the evidence of record in light of recent Board precedent. The Board has acknowledged that supplementation of the record in a pending case is appropriate to

address significant new Board decisions. In a recent decision in *Otter Tail Power Company v. The Burlington Northern and Santa Fe Railway Company*, STB Docket No. 42071 (served November 21, 2003), the Board granted the complainant's request for permission to supplement the record in light of the Board's decision in *Duke/NS* on the same revenue allocation issue that is the subject of BNSF's proposed Statement of Clarification in this proceeding. The Board reasoned that "[a]llowing the parties here to address new issues raised by recent decisions is reasonable because it will provide the Board with more relevant evidence and allow it to apply recent precedent." *Id.* at 1.
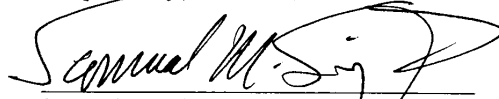
Moreover, acceptance of the attached Statement of Clarification would not disrupt this proceeding. In fact, the attached Statement does not go nearly as far as the supplementation that was permitted in the *Otter Tail* proceeding. BNSF is not sponsoring new SAC calculations or new SAC assumptions. The attached Statement of Clarification is based entirely on evidence that has already been submitted. The revenue allocation sponsored in BNSF's reply evidence remains unchanged. The only purpose of the attached Statement is to clarify the way that the DARA procedure used by BNSF allocates revenues associated with the recovery of road property investment, and BNSF is doing so for the sole purpose of explaining why the Board's conclusions regarding the NS approach are inapposite and should not preclude acceptance of BNSF's DARA procedure here.

Given the importance of the issue of revenue allocation on cross-over traffic in the SAC analysis and the limited scope of BNSF's Statement of Clarification on this issue, the Board should accept the attached Statement of Clarification.

Respectfully submitted,

Richard E. Weicher
Michael E. Roper
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SANTA FE RAILWAY COMPANY
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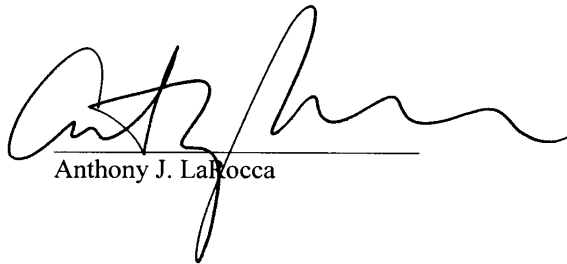Fort Worth, TX 76131

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ATTORNEYS FOR THE BURLINGTON
NORTHERN AND SANTA FE RAILWAY
COMPANY

January 20, 2004

CERTIFICATE OF SERVICE

I hereby certify that on January 20, 2004, I caused a copy of the foregoing Petition for

Leave to Supplement the Record and the attached pleading, The Burlington Northern and Santa

Fe Railway Company's Statement of Clarification Regarding Allocation of Revenues Under the

Density Adjusted Revenue Allocation Method, to be served by hand upon the following counsel

for Public Service Company of Colorado d/b/a Xcel Energy:

Thomas W. Wilcox
Thompson Hine LLP
1920 N Street, N.W.
Suite 800
Washington, D.C. 20036

Anthony J. LaRocca

BEFORE THE
SURFACE TRANSPORTATION BOARD

PUBLIC SERVICE COMPANY OF)	
COLORADO D/B/A XCEL ENERGY)	
)	
Complainant,)	
)	
v.)	Docket No. 42057
)	
THE BURLINGTON NORTHERN AND)	
SANTA FE RAILWAY COMPANY)	
)	
Defendant.)	
)	

THE BURLINGTON NORTHERN AND SANTA FE
RAILWAY COMPANY'S STATEMENT OF CLARIFICATION
REGARDING ALLOCATION OF REVENUES UNDER THE
DENSITY ADJUSTED REVENUE ALLOCATION METHOD

Defendant The Burlington Northern and Santa Fe Railway Company ("BNSF") submits

this statement for purposes of clarifying the existing evidence of record in this proceeding

regarding the allocation of revenues on cross-over traffic under BNSF's proposed density

adjusted revenue allocation methodology ("DARA"). Specifically, BNSF wishes to make clear

that the DARA procedure used by BNSF to allocate cross-over traffic revenues in BNSF's Reply

Evidence, filed on April 4, 2003, does not embody the assumption that light-density lines have

the same road property investment costs per mile as heavy-density lines. On the contrary, the

revenue allocated to cover variable costs in the first step of the two-step DARA procedure

includes the variable portions of road property investment and depreciation developed by the

Board's URCS costing procedure. URCS assumes that road property investment and

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depreciation costs for a given line segment increase as traffic density increases. In calculating

variable costs, the first step of the DARA procedure employed by BNSF assigns the URCS

prescribed unit of variable road property and depreciation cost to each gross ton-mile of traffic

moving on the denser on-SARR and less dense off-SARR segments of cross-over movements.

Thus, the greater the traffic densities on a particular line segment (i.e., the more gross ton-miles

moving over that segment) the greater the revenue allocated to coverage of costs associated with

road property investment and depreciation. Under step 1 of BNSF's DARA procedure, in the

first year of the DCF period the average revenue per route mile allocated to Xcel's SARR for

coverage of road property investment and depreciation is $99,127, versus average revenue of

$24,284 per route mile allocated to the less dense segments of the residual incumbent.

This Statement of Clarification does not alter the revenue allocation calculations or any

other calculations previously sponsored by BNSF in its Reply Evidence. The Statement is

submitted solely for the purpose of putting the existing evidence of record into proper

perspective in light of Board SAC decisions served since BNSF's Reply Evidence in this case

was filed. Specifically, this clarification should assist the Board in reaching the correct decision

regarding the allocation of revenues on cross-over traffic in light of the Board's recent decisions

in *Duke/NS* and *CP&L/NS*.[1] In those cases, *Duke/NS* in particular, the Board addressed a

revenue allocation procedure that entails the same series of calculations as DARA and concluded

that the defendant railroad had not adequately supported its approach.[2] In particular, the Board

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[1] *Duke Energy Corp. v. Norfolk So. Ry. Co.*, STB Docket No. 42069 (served Nov. 6, 2003) ("*Duke/NS*"); *Carolina Power & Light Co. v. Norfolk So. Ry. Co.*, STB Docket No. 42072 (served Dec. 23, 2003) ("*CP&L/NS*").

[2] The evidence of record in both *Duke/NS* and *CP&L/NS* was filed under seal. There is no public version of NS's evidence on revenue allocation for BNSF to address in this pleading. However, it is evident from the Board's *Duke/NS* decision that the formula used by NS to

appeared to be concerned that NS had not shown how its allocation procedure would account for differing levels of road property investment over line segments with varying traffic densities. *See Duke/NS* at 22.

The problem that the Board perceived with NS's revenue allocation methodology does not in fact exist with BNSF's DARA approach. Under DARA, line segments with greater densities are allocated more revenue per route mile to cover road property investment costs than lower density segments because URCS assigns the variable portion of road property investment costs for each ton-mile of traffic moving over a line and there is more traffic on heavy density segments than on light density segments.

The issue of revenue allocation on cross-over traffic is critically important. In this case, all traffic properly included in the stand-alone shipper group other than the issue traffic movement is cross-over traffic. Leaving aside the question of whether the Board should accept the use of cross-over traffic here, as it has in past SAC cases, the outcome of the case will be heavily influenced by the revenue allocation method selected by the Board if cross-over traffic is permitted. BNSF has already established in its Reply Evidence that an approach to revenue allocation that reflects economies of density as well as mileage is superior to one that ignores density because the cost structure of railroads is characterized by economies of density, as reflected by the widely recognized phenomenon of declining average costs as traffic densities increase. DARA gives effect to economies of density, but does not entail the supposed shortcoming of the NS approach that the Board addressed in *Duke/NS*. DARA should be adopted as the method for allocating revenues on cross-over traffic in this proceeding.

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allocate revenue in that case is the same one that BNSF uses in this case to allocate revenue on cross-over traffic movements.

I. BNSF'S EVIDENCE OF RECORD REGARDING DARA

In its April 4, 2003 Reply Evidence in this proceeding, BNSF presented extensive testimony addressed to the issue of the allocation of revenue on cross-over traffic movements. BNSF's witness Janusz Ordover explained that the starting point in devising a revenue allocation methodology was to base the approach on the principle of cost recovery. BNSF Reply Nar. at III.A-51 to 55. BNSF set forth in detail the reasons why its proposed DARA procedure is superior to the modified mileage prorate ("MMP") approach used by Xcel. In particular, BNSF pointed to Board and ICC authority standing for the proposition that greater use of the rail plant results in declining average costs. BNSF Reply Nar. at III.A-61 to 63.

BNSF explained that its DARA procedure was designed to address the Board's pronouncement in its *TMPA* decision regarding the allocation of revenue on cross-over traffic: "The revenue each carrier receives should cover the attributable costs of the service it provides and make some contribution to its unattributable costs."[3] As BNSF explained in its reply evidence, "DARA distinguishes between the coverage of attributable costs for both carriers and the sharing of whatever contribution exists *above* the combined attributable costs of the two carriers." BNSF Reply Nar. at III.A-74. That portion of a cross-over movement's revenue associated with attributable costs and that portion associated with the contribution available to cover unattributable costs are allocated through two separate steps of the DARA procedure.

First, DARA allocates revenue associated with directly attributable costs by determining the variable costs of both on-SARR and off-SARR segments of the cross-over movements in question. As BNSF explained:

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[3] *Texas Municipal Power Agency v. The Burlington No. and Santa Fe Ry. Co.*, STB Docket No. 42056, at 31 n.74 (served Mar. 24, 2003) ("*TMPA*").

> To estimate attributable costs for each cross-over traffic
> movement, Mr. Klick calculated URCS variable costs – using the
> most recent URCS for BNSF – for the WCC and residual BNSF
> segments of the movement. To do so, Mr. Klick used the Ex Parte
> No. 399 costing assumptions employed by the Board in preparing
> its Costed Waybill. . . . The portion of the end-to-end revenue
> required to cover each carrier's variable costs are [sic] assigned to
> each carrier, consistent with the divisions construct referenced in
> *TMPA*.

Id. at III.A-67. As discussed more fully below, the URCS variable costs calculated for each

cross-over traffic movement include a substantial component of road property and depreciation

costs that URCS assumes to be variable. There is no inverse density adjustment involved in this

first step of the DARA procedure that calculates the revenue associated with attributable costs.

On the contrary, revenue is allocated for the coverage of road property investment and

depreciation in direct proportion to the amount of cross-over traffic moving over the line. Each

gross ton-mile of each movement receives the same unit of cost recovery for road property and

depreciation for on-SARR and off-SARR ton-miles. So if there are more gross tons per route

mile on the denser segments of the SARR than on the less-dense segments of the residual

incumbent, the SARR will receive more revenue per route mile for recovery of road property and

depreciation under step 1 of the DARA procedure.

The second step of the DARA procedure involves the allocation of contribution net of

attributable costs that is available to defray unattributable costs. It is in this second step of the

DARA procedure that the inverse density adjustment is made, in recognition of the fact that

railroads exhibit economies of density, i.e., there are fewer units of traffic per route mile

available on less dense line segments to contribute to the recovery of unattributable costs. In

step 2 of DARA, the contribution in excess of attributable costs is allocated "in direct proportion

to the length of haul and inverse proportion to the densities on each carrier." *Id.*

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BNSF pointed out that application of its "proposed DARA procedure does not produce a dramatic shift in revenue divisions that favors BNSF. It allows complaining shippers to take advantage of economies of density, but at the same time provides for an even-handed allocation of revenues." *Id.* at III.A-72 to 73. The even-handedness of DARA derives from the fact that it assures that both on-SARR and off-SARR segments of cross-over movements will cover their attributable costs, while giving both a comparable opportunity to cover their unattributable costs.

II.   THE BOARD'S DECISION REGARDING A DENSITY ADJUSTED REVENUE ALLOCATION PROCEDURE IN *DUKE/NS*

The Board's recent *Duke/NS* decision addressed the issue of the proper method for allocating revenues on cross-over traffic on both a broad, conceptual basis and on a narrower basis that involved the Board's assessment of NS's proposed allocation methodology. On the conceptual level, the Board concluded that:

> [A] debate over how much of the revenues from cross-over traffic
> the hypothetical carrier could negotiate with the residual defendant
> has no place in a SAC analysis. . . . Rather, the revenue allocation
> issue should reflect, to the extent practicable, the defendant
> carrier's relative costs of providing service over the two segments.

Duke/NS at 19-20. A cost-based approach to revenue allocation on cross-over traffic is precisely what BNSF has advocated in this proceeding. *See* BNSF Reply Nar. at III.A-51 to 55 and BNSF Final Brief at 21-24.

Regarding its assessment of NS's proposed allocation methodology, the Board found that "NS's proposed formula contains the critical assumption that light-density lines have the same fixed costs per mile as heavy-density lines – an assumption that Duke challenges here. If the fixed costs per mile are not roughly the same, then NS's methodology could allocate too much

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revenue to the light density lines." *Duke/NS* at 21. The Board faulted NS for what it took to be

NS's assumption regarding "fixed costs per mile." It stated:

> But there is no evidence that fixed costs per mile are the
> same for the ACC's segment of any move as they are for the
> residual NS's. By definition, fixed costs are those costs that do not
> vary with output and would include investments in land, tunnels,
> track, and bridges. But this does not mean that the fixed
> investment costs are the same for light- and heavy-density lines.
> The fixed investments required for a superhighway are not the
> same as the fixed investments needed for a country road. The two
> roads may share certain basic investments, but it would be
> implausible to just assume that total fixed investment would not
> depend on the expected use of a road, or in this case, a rail line.

Id. at 22.

A critical feature of the foregoing passage, and hence a critical aspect of the Board's

rejection of NS's revenue allocation methodology, is the Board's understanding of the terms

"fixed costs" and "fixed investments." First, it appears that in talking about "fixed costs" and

"fixed investments" the Board was talking about costs of and investments in road property

("fixed costs . . . would include investments in land, tunnels, track, and bridges" (*Id.*)), or what

are sometimes referred to as "below the wheel" costs and investments. Second, the Board states

that "[b]y definition, fixed costs are those costs that do not vary with output. . . ." *Id.* However,

if the Board is using "fixed costs" to refer to road property or below the wheel costs, the

statement that "fixed costs . . . do not vary with output" is not correct. The quoted passage in its

entirety reflects the Board's understanding that road property costs *do vary* with the level of

output (i.e., with the amount of traffic moving over a segment of railroad). Moreover, of critical

importance for current purposes, *the Board's own URCS costing procedure assumes that a*

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certain portion of road property costs vary with density; accordingly, the variable portion of

road property investment and depreciation are included in URCS-based variable costs.[4]

The Board's conclusion regarding NS's revenue allocation methodology is set forth in the

following passage:

> There may be merit to allocating revenues based on the relative
> variable cost and average fixed cost to haul the traffic over each
> segment of the move, if those costs can be fairly approximated.
> But NS has not shown how its proposed formula would account for
> differences in fixed costs per mile. NS has provided no evidence
> that its per-mile capital investments in the Central Appalachian
> region are identical to its per-mile capital investments along is
> lower-density delivery network. This deficiency strikes at the
> heart of NS's proposed methodology and thus the Board will not
> adopt it.

Duke/NS at 22.

These findings cannot properly be applied to BNSF's DARA procedure.

III.   THE BOARD'S CRITICISM OF NS'S REVENUE ALLOCATION METHODOLOGY CANNOT LOGICALLY BE APPLIED TO DARA

BNSF acknowledges that the revenue allocation formula set out in the *Duke/NS* decision

is the same formula that the BNSF used to implement DARA. But the criticisms the Board made

of NS's revenue allocation methodology were based on an incomplete assessment of the

allocation formula and do not apply to DARA.

The DARA procedure implemented by BNSF *does not* assume that the fixed costs (i.e.,

costs of road property investment) are the same per mile for light density lines as for heavy

density lines. The first step of the DARA procedure allocates revenues sufficient to cover

directly attributable costs for movements over on-SARR and off-SARR segments by calculating

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[4] *See* Verified Statement of John C. Klick and Benton V. Fisher at 26-27 ("Klick/Fisher V.S."), attached to this Statement.

URCS variable costs that include the variable portion of road property investment and depreciation. On average, there is more cross-over traffic (and more traffic overall) moving over the relatively dense on-SARR portion than on less dense off-SARR segments, thus more variable costs per route mile are allocated for the recovery of road property investments to the denser on-SARR segments.

Under BNSF's DARA step 1 revenue allocation on cross-over traffic in this case, the variable road property costs per route mile allocated to the higher density SARR is $99,127, which exceeds by over four hundred percent the variable road property costs per route mile of $24,284 allocated to the lower-density off-SARR segments. *See* Attachment 5 to Klick/Fisher V.S.

The reason why the higher density on-SARR segments receive more revenues per route mile for coverage of the variable portion of road property investment is straightforward, as illustrated in Attachment 1 to Klick/Fisher V.S., which is a simplified schematic of two cross over-traffic movements. Movement AC and movement AD are both 10 million gross tons and both travel over the same 100-mile segment of the SARR from point A to point B. At point B, each movement crosses over to a separate line of the residual incumbent for an additional 100-mile journey to the destination over segments BC and BD respectively. Roadway investment costs (and the associated revenue assigned through the first step of the DARA procedure) are calculated by multiplying the total gross ton miles on each segment by the URCS variable unit cost of $1,157 per million gross ton miles.[5] Investment per route mile is determined by dividing this dollar amount by the number of route miles per segment. In the example, the denser SARR segment receives twice as much revenue for the coverage of variable roadway investment cost

_____

[5] See Klick/Fisher V.S. at Attachment 2 for the derivation of this unit cost.

because it carries precisely twice as much cross-over traffic as either of the two less dense off-SARR segments.

The schematics in Attachments 3 and 4 to Klick/Fisher V.S. are in fact a simplified version of the configuration of the actual lines of the SARR and the residual incumbent involved in this case, as reflected in Exhibit III-A-5 of BNSF's reply evidence.[6] For each of the less dense off-SARR line segments, the first step of the DARA procedure allocates less revenue for the recovery of roadway investment costs per route mile than for the more dense on SARR segments.

The allocation of revenue to cover road property investment in the first step of DARA was recognized by Xcel's witness Professor George Borts in his rebuttal testimony in this proceeding. Professor Borts addressed the components of URCS variable costs used in step 1 of DARA in the context of arguing that there is no need to allocate any contribution to the residual incumbent in Step 2 of DARA because the residual incumbent's attributable costs are already covered by the URCS variable costs:

> Nor has BNSF explained why it is necessary or justified from an economic standpoint to use its DARA methodology for the provision of a revenue contribution to the residual incumbent in excess of URCS variable cost. There are two reasons for considering URCS variable cost to be the attributable cost of cross-over traffic, and therefore the appropriate contribution to joint and common costs on the residual incumbent. First, URCS is a long-run marginal cost concept. *A portion of capital investment costs is*

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[6] A copy of Exhibit III-A-5 is included with the Klick/Fisher V.S. for the Board's convenience. One difference between Exhibit III-A-5 and the hypothetical in Attachment 1 is that the densities of the off-SARR segments of the residual BNSF in Exhibit III-A-5 reflect additional real world movements that Xcel did not include as cross-over traffic moving on the SARR. Presumably the revenue on these non-cross-over movements is sufficient to cover the directly attributable costs of these movements, in which case the non-cross-over movements can be assumed to make the same per unit contribution to variable road property costs on the residual incumbent as the cross-over movements.

> *already included in URCS variable cost. Capital is charged in at*
> *current cost rates of return, and moreover there is considerable*
> *variability of capital investment with traffic.* Second, URCS cost
> coefficients understate the economies of unit train movements, so
> that URCS overstates the cost of moving unit coal trains. So long
> as the cross-over traffic pays the residual incumbent a rate share
> equal to its attributable cost, it cannot be said to be receiving a
> subsidy.

Xcel Rebut. Exh. III-A-7 at 14. This passage confirms Xcel's understanding that the URCS

variable costs used in step 1 of DARA include "a portion of capital investment costs" and that

under URCS "there is considerable variability of capital investment with traffic."

The Board's discussion of NS's revenue allocation procedure in *Duke/NS* did not include

any reference to or consideration of the URCS road property investment costs that are allocated

through the first step of the DARA procedure. Instead, the Board's discussion focused upon the

aspect of the allocation formula that allocates contribution in excess of attributable cost in

inverse proportion to density. This is the aspect of the DARA procedure that BNSF described in

its reply evidence as involving the allocation of revenue available for the coverage of

unattributable costs. In this case, 79 percent of the total revenue that BNSF allocated through the

DARA procedure is for coverage of the variable costs developed in step 1 of DARA.

Attachment 5 to Klick/Fisher V.S.

The Board is correct that the formula used in the second step of DARA can be

characterized by the assumption that unattributable costs, as distinct from attributable costs, are

the same per route mile on the less dense as well as more dense segments of cross-over

movements. BNSF acknowledges that the assumption of identical road property investment per

route mile would be incorrect if the assumption were used in allocating revenues to cover

attributable costs, but BNSF has not made that assumption in addressing attributable costs. The

assumption is valid in the second step of DARA precisely because the costs to be covered, being

- 18 -

unattributable, do not vary with the volume of traffic. The logic of URCS is that unattributable costs – costs that are not variable as determined by the URCS variable costing procedure – are independent of the level of traffic on a particular line segment and therefore would be the same per route mile on more dense and less dense segments of cross-over movements.

In its description of DARA in its Reply Evidence in this case, BNSF distinguished between costs that it called "fixed" (in the sense of being constant or unattributable to any particular traffic) and the "additional costs associated with" investments that vary with the level of traffic:

> For each cross-over traffic movement, Mr. Klick developed average density per route mile on the lines of the WCC and the residual BNSF. Densities per *route* mile are appropriate because "fixed costs" are presumably associated with creating a single-track railroad. The additional costs associated with putting in passing sidings or multiple track, heavier rail, and enhanced signaling and communications systems would be part of what is reflected in the variable portion of URCS roadway ownership costs.

BNSF Reply Nar. at III.A-67.

The point of this statement from BNSF's reply evidence is essentially the same as the point made in the previously quoted passage in the Board's *Duke/NS* decision suggesting that a superhighway would have higher capital investment costs than a country road. As BNSF explained in the passage above, a railroad built to accommodate high traffic densities would incur additional costs beyond those incurred to build a single-track railroad, and those variable costs are addressed through the URCS variable costs developed in Step 1 of DARA. The unattributable costs of a single-track railroad (or country road) do not vary with the level of traffic; they will be the same on more dense and less dense segments of cross-over movements. Step 2 of the DARA procedure allocates revenue for the coverage of such unattributable costs.

In its *Duke/NS* decision, the Board suggested that "[t]here may be merit to allocating revenues based on the relative variable cost and average fixed cost to haul the traffic over each segment of the move, *if those costs can fairly be approximated*." *Duke/NS* at 22 (emphasis added). But the Board found that "NS has not shown how its proposed formula would account for differences in fixed costs per mile," again using "fixed costs" to refer to roadway investment or below the wheel costs. *Id.* DARA *does* account for differences in roadway investment costs per mile, and it does so in a manner that is called for by the Board's own URCS costing regime. DARA allocates the URCS prescribed roadway investment unit cost to each ton-mile of traffic moving over a particular line segment. Differences in the variable portion of roadway investment costs will be proportional to the differences in tonnage of cross-over traffic moving over the line segments. DARA will therefore allocate more road property investment costs per route mile to segments with higher densities per route, as the Board's *Duke/NS* decision suggests would be logical.

URCS reflects the Board's understanding of how road property costs vary with density and BNSF has incorporated that determination into its DARA calculation. There is no basis for the Board to require BNSF to make a different determination regarding the relationship between traffic levels and the variable cost of road property from that established by the Board's own URCS costing procedures.

IV. THE MSP PROCEDURE USED BY THE BOARD IN *DUKE/NS* IS INFERIOR TO DARA BECAUSE IT DOES NOT ACCOUNT FOR ECONOMIES OF DENSITY

In its *Duke/NS* decision, the Board stated that "[i]n the absence of a better supported method, the Board is left to continue to apply a mileage-based approach, which clearly bears some relationship to the relative total costs NS incurs to provide service over each segment." *Duke/NS* at 22. However, the Board expressed concern that the Block Methodology underlying

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the MMP is susceptible to manipulation. The Board selected an alternative mileage-based allocation procedure, which it identified as a "Modified Straight-Mileage Prorate" ("MSP") as preferable to the MMP approach advocated by Duke and by Xcel in this case.

BNSF agrees that mileage should be taken into account in any methodology used to allocate revenue on cross-over traffic because the length of haul clearly has a bearing on the costs incurred to handle cross-over traffic on both the on-SARR and off-SARR segments of the movement. Indeed, BNSF's DARA procedure takes mileage into account both in the first step of calculating variable costs and in the second step of determining how the net contribution available for coverage of unattributable costs should be allocated.

A significant limitation inherent in the MSP approach is that it does not take the relative densities of on-SARR and off-SARR segments into account in determining revenue allocation. If the Board's goal is to have a revenue allocation procedure that "produce[s] the fairest division between the carriers," as the Board suggested in *Duke/NS* at 22, then it is necessary to have a revenue allocation procedure that takes density into account.

It is indisputable that economies of density exist in the rail industry, resulting in the well recognized phenomenon of declining average costs as traffic increases. *See* BNSF Reply Nar. at III.A-61 to 65. The existence of economies of density was a key feature of the railroad industry cost structure addressed by the ICC in its *Coal Rate Guidelines*:

> Railroads exhibit significant economies of scope and density. . . . Economy of *density* refers to the fact that greater use of the fixed plant results in declining average cost. Thus, the marginal cost of rail service is less than the average cost, because the fixed plant is used in a progressively more efficient manner.
>
> The differential between marginal costs and average costs cannot be assigned directly to specific movements by any conventional accounting methodology. Hence, we refer to it as the "unattributable costs."

- 21 -

Coal Rate Guidelines, Nationwide, 1 I.C.C.2d 520, 526 (1985) ("*Coal Rate Guidelines*").

The Board has frequently noted the existence of economies of density in its SAC decisions. Indeed, the Board stated in its *Duke/NS* decision that:

> In making a SAC presentation, a complainant may select a subset of the defendant's traffic for study (rather than the complainant's traffic alone) *in order to realize the benefit of the economies of scale, scope and density inherent in the railroad industry* and enjoyed by the defendant.

Duke/NS at 29, citing *Guidelines*, 1 I.C.C.2d at 544. With cross-over traffic, the complaining shipper realizes the benefits of economies of density over the segments of the SARR that it elects to construct and avoids the cost of actually building the far flung network of rail lines that a defendant needs to gather the traffic that yields those densities.[7] One need only glance at the network of rail lines used by BNSF to handle in the real world the cross-over traffic that Xcel has selected in this case to realize the enormous benefit that the complaining shipper realizes by avoiding the construction of those lines. *See* BNSF Reply Exh. III-A-5. Given the critical benefit that the complaining shipper realizes from being able to capture economies of density, the notion that relative densities can fairly be ignored in allocating revenues on cross-over traffic – which is the result realized under MSP – is untenable.

As explained earlier, the first step of the DARA procedure does not make any adjustment to reflect economies of density. That step allocates to both on-SARR and off-SARR segments revenue sufficient to cover the attributable costs per ton-mile (calculated as URCS variable costs) of all movements that travel over those segments. Thus, if the SARR has twice as much traffic per route mile as does the residual incumbent, it will receive twice as much revenue to

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[7] *See Duke/NS* at 29 (*citing Bituminous Coal -- Hiawatha, Utah to Moapa, Nevada*, 10 I.C.C.2d 259, 265-67 & n.12).

cover road property costs in step 1 of the DARA procedure. It is only in the second step of

DARA, which allocates the net contribution available to cover unattributable costs, that

economies of density are taken into account. The allocation of net contribution in inverse

proportion to density is intended to yield "the fairest division between the carriers."

The logic of the revenue allocation in step 2 of DARA is the following:

- There are the same amount of unattributable costs per route mile on both the on-SARR and off-SARR segments of cross-over movements. (All the costs that are attributable to the traffic moving over the segments have been covered in step 1.)

- There is no principled reason why the SARR should be able to recoup a larger portion of its unattributable costs than the residual incumbent. The way to produce "the fairest division between the carriers" is to give them both the same *opportunity* to cover unattributable costs.

- If one segment of the cross-over route has twice as much traffic per route mile as the other, a division that gives each unit of traffic the same amount of revenue per route mile will not produce a fair division between the carriers, because it will give the carrier with more traffic twice as much revenue as the other carrier to recover the same quantum of unattributable costs.

- The only fair approach is to give the segment with more traffic a share of the revenues that is inversely proportional to the amount of traffic (i.e., traffic on the segment with twice as much traffic gets half the revenue per unit of traffic). That way, both the on-SARR and off-SARR segments will have an identical opportunity to cover unattributable costs.

The logic of step 2 of DARA is also illustrated graphically in Figure 1 to the Klick/Fisher

Verified Statement. As the graph illustrates, it is both economically logical and eminently fair

that the less dense segments should receive a greater share of revenue per unit of traffic so as to

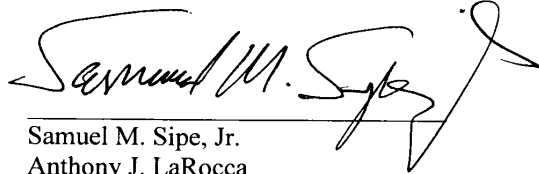give them an opportunity equal to that of denser segments to recover unattributable costs.

While rejecting NS's allocation approach on conceptual grounds, the Board also stated

that "the MSP Methodology is far easier to apply [than NS's density methodology], as it does not

require the parties to calculate the relative variable cost of each cross-over movement." *Duke/NS*

at 25 n.38. The relative ease of application of MSP is not a rational basis for adopting that approach in lieu of DARA because MSP ignores the effects of density on costs and as a result undercompensates the less dense off-line segments of the residual incumbent. Moreover, as explained in Mr. Klick's verified statement, the calculation of variable costs on cross-over movements using the Board's Ex Parte No. 399 costing procedures is not onerous – certainly no more so than dozens of the other computational challenges presented in a typical SAC case. Given the critical role that cross-over traffic plays, it is not unreasonable to expend the effort needed to implement an economically superior revenue allocation procedure.

CONCLUSION

For the foregoing reasons, the Board should conclude that BNSF's allocation of cross-over traffic revenues using the DARA procedure is the preferred approach in this case.

Respectfully submitted,

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ATTORNEYS FOR THE BURLINGTON
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COMPANY

VERIFIED STATEMENT OF

JOHN C. KLICK AND BENTON V. FISHER

IN SUPPORT OF THE BURLINGTON NORTHERN AND SANTA FE RAILWAY

COMPANY'S STATEMENT OF CLARIFICATION REGARDING

ALLOCATION OF REVENUES UNDER THE DENSITY ADJUSTED REVENUE

ALLOCATION METHOD

We are John C. Klick and Benton V. Fisher. We are, respectively, Senior Managing Director and Managing Director of FTI Consulting, Inc.'s Network Industries Strategies Group. Our offices are located at 1201 I Street, NW, Suite 400, Washington, DC 20005. We have previously submitted testimony in this proceeding, and statements of our qualifications have previously been provided to the Board.[1] We have been asked to file this verified statement in support of *The Burlington Northern and Santa Fe Railway Company's Statement of Clarification Regarding Allocation of Revenues Under the Density Adjusted Revenue Allocation Method.*

The Density Adjusted Revenue Allocation ("DARA") approach for allocating revenues on cross-over traffic between the stand-alone railroad ("SARR") and the residual incumbent was designed to reflect two considerations. First, it was designed to be consistent with the Board's finding in its *TMPA* decision to ensure that the division of cross-over traffic revenues between the SARR and the residual incumbent "should cover the attributable costs of the service it provides and make some contribution to its

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[1] In BNSF's Opening Evidence, Mr. Fisher sponsored evidence in Sections II.A.1.b, II.A.1.c and II.A.2; Mr. Klick sponsored evidence in Sections II.A.3.a, II.A.3.d and II.A.3.e; in BNSF's Reply Evidence, Mr. Fisher sponsored evidence in Sections II.A and III.D.3.a.ii, and Mr. Klick sponsored evidence in Section III.A, including BNSF's implementation of the DARA procedures; in BNSF's Rebuttal Evidence, Mr. Fisher sponsored evidence in Section II.

unattributable costs."[2] The second consideration that DARA was designed to reflect was the fact that railroad operations are known to exhibit economies of density.[3] The Board's decision in *Duke/NS* explicitly acknowledges this characteristic of railroad operations.[4] DARA properly reflects these two considerations by applying a two-step allocation procedure, as described in BNSF's Reply Evidence.[5]

The first step of DARA is designed to identify the attributable costs of the services that the SARR and the residual incumbent provide, respectively, on each cross-over traffic movement. DARA does so by calculating the URCS variable costs, respectively, for the SARR and residual incumbent portions of each cross-over traffic movement by applying the Ex Parte No. 399 costing assumptions (used by the STB in preparing its Costed Waybill file each year) and BNSF's 2001 URCS.[6] Because URCS develops variable costs under a medium to long-run time horizon (Adoption of the Uniform Railroad Costing System (URCS), Ex Parte No. 431 (Sub No. 1), decided Sept. 8, 1989, at 895, 5 I.C.C. 2d), the URCS variable unit costs include a substantial component of costs associated with road property and depreciation (approximately 20 percent to 25 percent of the URCS variable costs of an individual coal movement on BNSF are ownership costs associated with "below-the-wheel" investments such as land,

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[2] *Texas Municipal Power Agency v. The Burlington Northern and Santa Fe Ry. Co.*, STB Docket No. 42056 (STB served Mar. 24, 2003) ("TMPA"), slip op. at 31, n. 74.
[3] *See Coal Rate Guidelines - Nationwide*, I.C.C. 2d at 544.
[4] *See Duke Energy Corporation v. Norfolk Southern Railway Company*, STB Docket No. 42069 (STB served Nov. 6, 2003) ("*Duke/NS*"), slip op. at 29.
[5] *See generally* BNSF Reply Nar. at III.A-61 to 75.
[6] The DARA revenue allocation is performed once, on the base year cross-over traffic, to calculate WCC revenues associated with base year volumes. For all remaining years in the DCF, this base year WCC revenue is adjusted by forecasts of changes in tonnage volume and rates per ton for the cross-over traffic movements. This is the standard approach to estimating cross-over revenue allocation for SAC studies.

grading, tunnels, track, ballast, ties, and bridges).[7] In other words, the URCS variable

unit costs developed in Step 1 of the DARA procedure account for those "below-the-

wheel" road property investment costs that the Board (and its predecessor, the Interstate

Commerce Commission) have determined – in the context of URCS – increase as density

on a particular line segment increases.[8] By using URCS variable costs in Step 1 of

DARA, BNSF has therefore explicitly recognized that total road property costs on

higher-density lines would be higher than total road property costs on lighter-density

lines, because application of the URCS variable unit costs increases variable road

property return on investment and depreciation costs in direct proportion to increases in

density.

Attachment 1 is a simplified illustration of how variable road property costs

increase in direct proportion to density in Step 1 of DARA. In Attachment 1, movement

AC and movement AD have annual volumes of 10 million gross tons, and travel over the

same 100-mile segment of the SARR from point A to point B. At point B, each

movement crosses over to a separate line of the residual incumbent for an additional 100-

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[7] Xcel's own witnesses agree with this point. *See* page 14 of Exhibit III-A-7 to Xcel's Rebuttal evidence ("URCS is a long-run marginal cost concept. A portion of capital investment costs is already included in URCS variable costs.").

[8] In its *Duke/NS* decision, the Board appears to use the terms "fixed costs" and "fixed investments" in two different ways. On the one hand, it suggests that this term refers to road property investment and depreciation, *i.e.*, the costs of "land, tunnels, track and bridges" that are cited in the *Duke/NS* decision at page 22. On the other hand, the Board's decision also notes that "[b]y definition, fixed costs are those costs that do not vary with output." *Id.* These two definitions of "fixed costs" and "fixed investments" would be compatible if one were distinguishing between variable and fixed costs in the short run, where there is no opportunity to modify the road property costs in response to changes in traffic density. This is the costing horizon that characterizes the presumptive cost floor discussed in BNSF's Reply Evidence (BNSF Reply Nar. at III.A-56-57), which Xcel incorrectly identified as "directly variable costs." *Id.* Stand-alone costs, however, are meant to analyze long-run revenue and cost relationships. *See, e.g., Carolina Power & Light Company v. Norfolk Southern Railway Company*, STB Docket No. 42072 (STB served Dec. 23, 2003) ("*CPL*") at 12-13. In the context of SAC, therefore, it is appropriate to distinguish between "fixed" and "variable" costs over a longer-run time horizon, as the Board's URCS process is designed to do. Here, significant portions of the railroad's road property costs are considered variable, *i.e.*, they increase in direct proportion to increases in traffic density.

mile journey to the destination over segments BC and BD respectively. Variable road property costs (and the associated revenue assigned through the first step of the DARA procedure) are calculated by multiplying the total gross ton-miles on each segment by the URCS unit cost of $1,157 per million gross ton-miles.[9] Variable road property cost per route mile is determined by dividing this dollar amount by the number of route miles per segment. In the example in Attachment 1, the denser SARR segment receives twice as much revenue for the coverage of variable road property cost because it carries precisely twice as much traffic as either of the two less dense off-SARR segments.

Attachments 3 and 4 illustrate the allocation of revenues for two actual WCC and residual BNSF routes, drawn from BNSF's Reply Evidence.[10] Attachment 3 shows the cross-over route from Eagle Butte, WY to Parish, TX, covering 390 route miles and 33,798 million gross ton-miles on the WCC and 1,274 route miles and 33,969 million gross ton-miles on the residual BNSF. Here, DARA allocates more than three times the revenue per route mile for the recovery of road property costs to the higher-density WCC segments than to the relatively lower-density residual BNSF segments traversed by cross-over traffic.

Attachment 4 shows the cross-over route from Eagle Butte, WY to Chicago, IL, covering 271 route miles and 28,539 million gross ton-miles on the WCC and 879 route miles and 44,693 million gross ton-miles on the residual BNSF. Here, DARA allocates more than twice the revenue per route mile for the recovery of road property costs to the WCC segments than to the residual BNSF segments traversed by cross-over traffic.

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[9] Attachment 2 shows how the $1,157 per million gross ton-miles is derived from the 2001 BNSF URCS provided as part of the workpapers underlying BNSF's Reply Evidence.

[10] BNSF submits with this Statement a CD containing the electronic work papers supporting the figures in these Attachments. *See* "Restated WCRR Traffic Exhibits2 Revised," "Restated WCC Traffic Revised.xls" and "Off-SARR Density Revised."

For each cross-over traffic movement, revenues in excess of the attributable costs calculated in Step 1 of DARA represent the "contribution to...unattributable costs" (as the *TMPA* decision recognized) that is generated by that movement. Step 2 of DARA employs a procedure that is distinct from Step 1 for allocating this contribution to unattributable costs between the SARR and the residual incumbent. In its *Duke/NS* decision, the Board concluded that "the revenue allocation issue should reflect, to the extent practicable, the defendant carrier's relative costs of providing service over the two segments." *Duke/NS* at 19-20. Step 2 of DARA seeks to allocate the contribution to unattributable costs for each cross-over traffic movement in precisely this fashion.

As we explained above, by allocating revenues to the SARR and residual BNSF portions of each cross-over traffic movement to cover that portion of URCS variable costs, Step 1 of DARA provides sufficient revenues to cover all costs that increase or decrease in direct proportion to the level of traffic – *including* the costs of road property that increase as density increases. By definition, therefore, the contribution to unattributable costs generated by each cross-over traffic movement is available to defray costs that are unaffected by the level of traffic – including only those road property costs that remain constant regardless of traffic density. *See generally* BNSF Reply Nar. at III.A-67.

It is these costs, *i.e.*, the costs that remain constant regardless of traffic density, that give rise to economies of density in railroad operations. Because these costs remain the same as traffic densities increase, the average total cost per unit of traffic declines as traffic density increases. If all costs were variable with traffic density, there would be no economies of density, because total costs would increase in direct proportion to traffic

volume, and the average total cost per unit of traffic would remain identical at all traffic densities. Furthermore, because these costs remain the same at varying levels of traffic, doubling the traffic density cuts the average unattributable cost per unit of traffic in half. This is the origin of the inverse density adjustment that is incorporated in step 2 of the DARA procedure, where the contribution to unattributable costs is allocated.

The lower contribution to unattributable costs per ton-mile on the higher-density segments included in step 2 of DARA is consistent with "the defendant carrier's relative costs of providing service over the two segments," because unattributable costs (*i.e.*, costs that do not vary with changes in density) per ton-mile decline in inverse proportion to increases in density. Allocation of contribution on a mileage basis – without incorporating the inverse density relationship in step 2 of DARA – would prevent the revenue allocation from reflecting the carrier's relative costs of providing service to a cross-over traffic move on the denser WCC segments as compared to the less dense residual BNSF segments.[11]

To support this statement, we prepared Attachment 5, which demonstrates how variable road property investment is treated in the context of the DARA revenue allocation. The revenue allocations reflected in Attachment 5 are drawn from BNSF's Reply Evidence, and no change to that Reply Evidence has been made in creating this Attachment. Attachment 5 shows that in Step 1 of DARA, the amount of variable road property cost allocated to the WCC, per route mile, is *more than four times* ($99.1 million versus $24.3 million) the amount of variable road property cost allocated to the residual BNSF, reflecting the fact that the WCC carries four times the amount of cross-over traffic

[11] As demonstrated by the copy of BNSF Reply Exhibit III-A-5 (which is reproduced here, in smaller scale, for the Board's convenience), the average densities on most of the residual BNSF segments traversed by cross-over traffic are much lower than the average densities on the WCC.

per route mile. Attachment 5 also demonstrates that nearly 80 percent of the revenues generated by cross-over traffic were allocated between the WCC and the residual BNSF in Step 1 of DARA, *i.e.*, on the basis of the URCS-based attributable costs. Thus, Step 1 of DARA behaves just as the Board's *Duke/NS* decision suggests should be the case, attributing higher road property costs to "super highways." In the second step of DARA, contribution to unattributable costs – that by definition are *unaffected* by relative density – is allocated between WCC and the residual BNSF. The inverse density rule is implemented only in Step 2 of DARA, thereby reflecting the economies of density that characterize the rail industry.

In *Duke/NS*, the Board implies that use of the DARA procedure could require a significant effort by the parties in a SAC proceeding to develop the variable costs for each cross-over traffic movement. By using the Ex Parte No. 399 procedures, however, development of variable costs is straightforward and readily mechanized. Furthermore, line segment densities on the SARR must be developed for other aspects of the SAC study – such as calculating construction costs and developing operating plans. Densities on the residual incumbent segments are routinely provided in response to discovery requests by complainants. In short, the effort to make the DARA allocation is no more arduous than dozens of other tasks required to prepare SAC evidence. Given its potential to significantly alter the SAC result, it is critical that the revenue allocation be done in a manner most consistent with SAC theory, which BNSF believes DARA accomplishes.

Conclusion

Figure 1, below, summarizes the attributes of BNSF's DARA procedure:

Figure 1

DARA Revenue Allocation
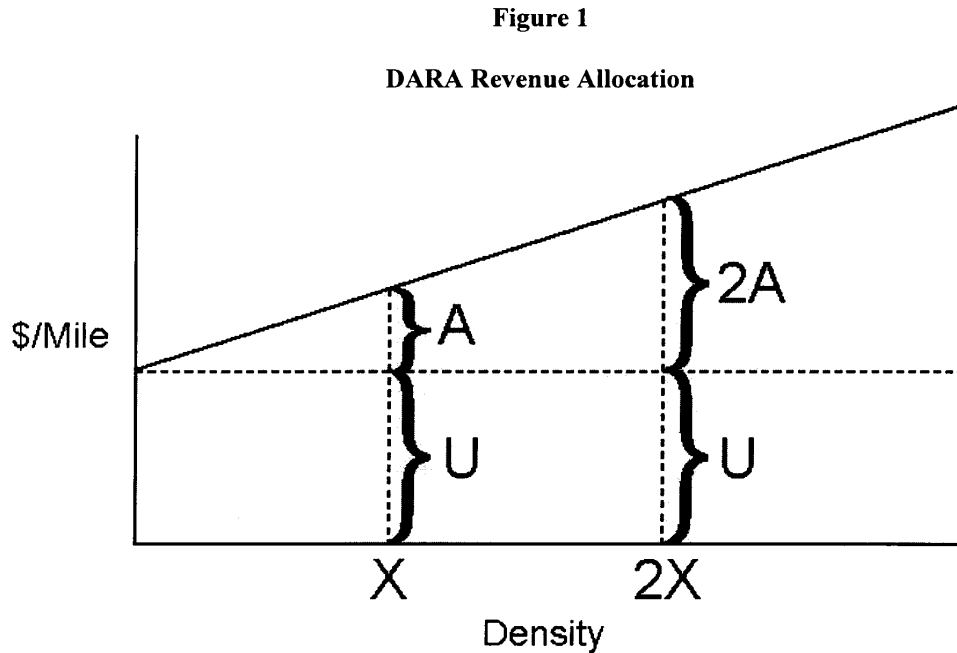
As Figure 1 shows, Step 1 of DARA ensures that as density increases, the total

amount of road property cost increases as well. As a result, the Step 1 component of the

DARA divisions calculation ensures that the higher-density portions of the WCC receive

correspondingly more revenue per route mile to pay for the higher attributable road

property costs. However, unattributable costs – which, by definition, do not increase as

density increases (otherwise, they would be attributable costs) – remain constant as

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density increases. As a result, when density doubles, the average unattributable cost per ton-mile is cut in half. This is the origin of the inverse density rule that is employed in Step 2 of DARA. Because the contribution above attributable costs generated by an individual cross-over traffic movement is what is available to help defray a railroad's total unattributable costs, it is appropriate to apply the inverse density rule in allocating contribution in Step 2 of DARA. By doing so, we ensure that the overall contribution generated by the cross-over traffic movement pays the same amount of unattributable cost per mile on the WCC as it does on the residual BNSF.

I declare under penalty of perjury that I have read the Verified Statement in Support of

The Burlington Northern and Santa Fe Railway Company's Statement of Clarification Regarding

Allocation of Revenues, and that the contents thereof are true and correct. Further, I certify that I

am qualified and authorized to file this Verified Statement.

Executed on January 16, 2004

John C. Klick

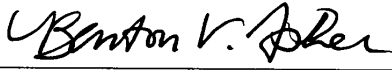I declare under penalty of perjury that I have read the Verified Statement in Support of

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am qualified and authorized to file this Verified Statement.

Executed on January 16 , 2004

_____
Benton V. Fisher

BNSF
Burlington Northern Santa Fe

MONTANA
NORTH DAKOTA
MINNESOTA
Superior
Eagle Butte SOUTH DAKOTA
Belle Ayr
Reno
N. Rochelle
Nacco Jct.
WYOMING
Wendover NEBRASKA
Moba
Northport
IOWA
High Bridge
Riverside WISCONSIN
Chicago
North Omaha
Nebraska City
Callaway
ILLINOIS
INDIANA
Arapahoe
Pawnee Junction
KANSAS
Aetna
Kansas City
Thomas Hill
COLORADO
Comanche
Tecumseh
Lawrence
Hawthorn
Sioux
Holcomb
MISSOURI
James River
KENTUCKY
Cook
Southwest
Sikeston
NEW MEXICO
TENNESSEE
Harrington
OKLAHOMA
ARKANSAS
Tolk
Oklaunion
Hugo
Miller
ALABAMA
MISSISSIPPI
Limestone
LOUISIANA
Gibbons Creek
TEXAS
Fayette
Parish

LEGEND
— WCC Stand-Alone Lines
— Residual BNSF Lines that Handle Crossover Traffic
— Other Rail Lines
Other Key Points & Junctions
Power Plants & Destinations

Million Gross Tons (MGT)
131 +
101 - 130
71 - 100
41 - 70
21 - 40
0 - 20

Illustration of Allocation of Revenues for Recovery of Road Property Costs
in Step #1 of DARA
Residual RR Segments Traversed
by Cross-Over Traffic

SARR Segments

Origin
Mine

(A)

100 route miles

| 10 MGT |

SARR/Residual RR
Interchange

(B)
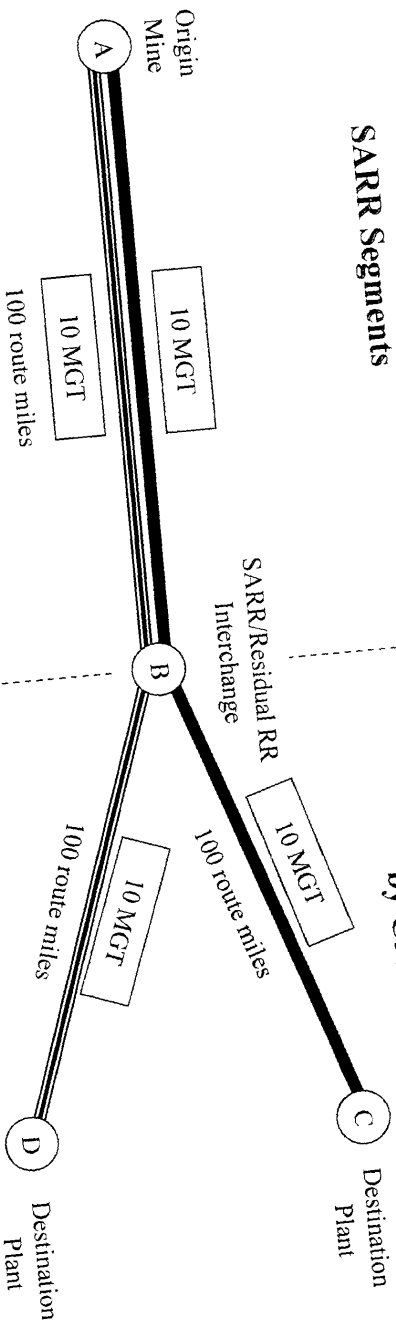
(10 MGT $_{AB}$ + 10 MGT $_{AB}$)

x (100 route miles) = 2,000 MGTM

x $1,157 per MGTM*

= $2.31 Million

÷ 100 Total Route Miles

= $23,140 per Route Mile

| 10 MGT |

100 route miles

(C)

Destination
Plant

| 10 MGT |

100 route miles

| 10 MGT |

(D)

Destination
Plant

(10 MGT $_{BC}$ x 100 route miles)

+ (10 MGT $_{BD}$ x 100 route miles) = 2,000 MGTM

x $1,157 per MGTM*

= $2.31 Million

÷ 200 Total Route Miles

= $11,570 per Mile

* See Attachment 2

▶ DARA allocates twice as much revenue per route mile ($23,140 / $11,570 = 200%) for recovery of road property costs
to the SARR segments as it does to the residual RR segments traversed by cross-over traffic.

Calculation of Variable Road Property Costs

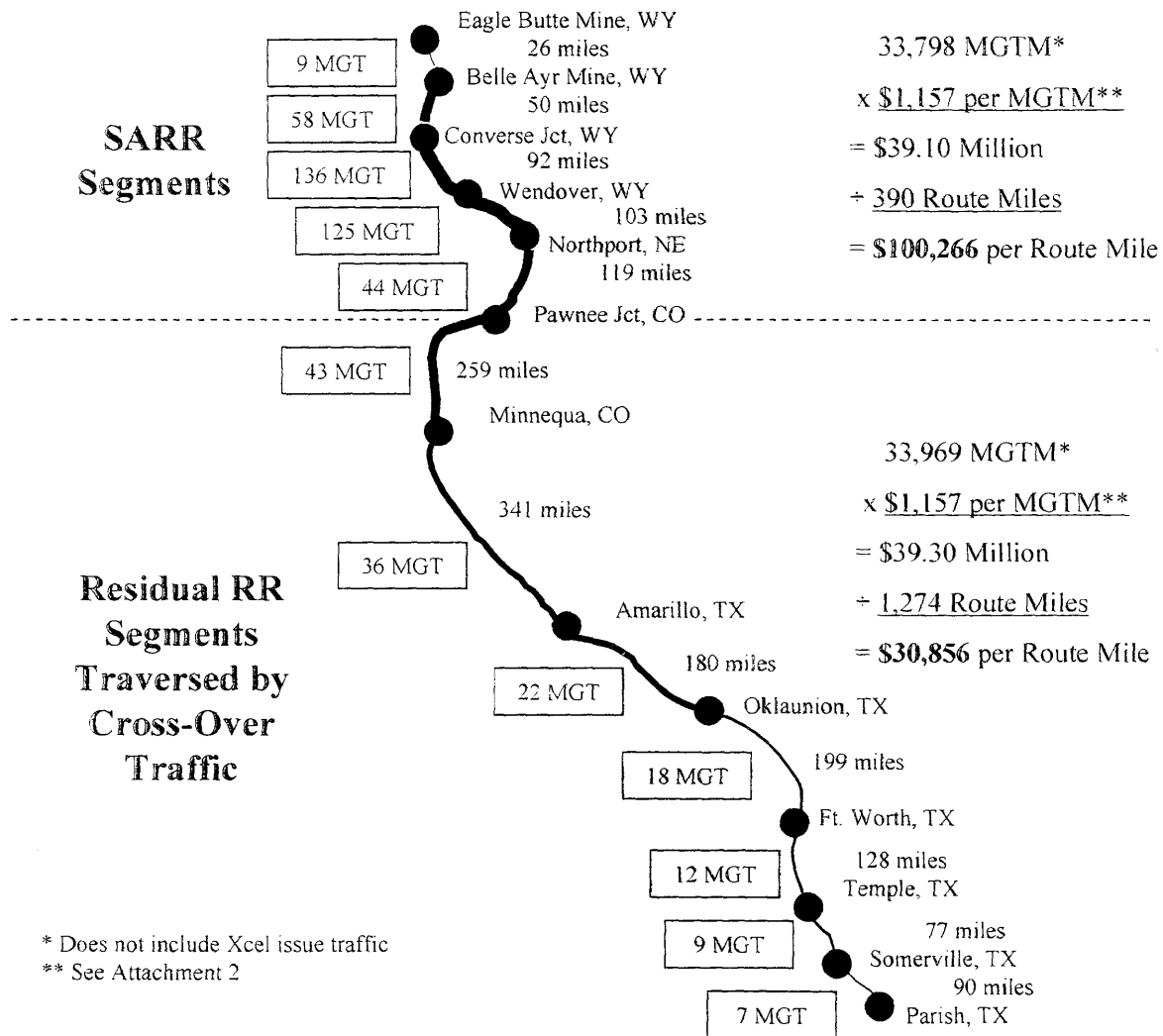|			
1	Variable Road Property Depreciation per GTM	$0.000308	BNSF 2001 URCS Work Table D1, Line 234, Column 10
2	General Overhead Ratio for Depreciation Expense	1.029050	BNSF 2001 URCS Work Table D8, Line 608, Column 01
3	Variable Road Property Depreciation Expense per GTM, Including Overhead	$0.000317	= 1 x 2
4	Variable Road Property Depreciation Expense per Million GTM	$317	= 3 x 1,000,000
5	Variable Return on Net Investment in Road Property per GTM	$0.000773	BNSF 2001 URCS Work Table D1, Line 251, Column 10
6	General Overhead Ratio for Return on Investment Expense	1.087880	BNSF 2001 URCS Work Table D8, Line 609, Column 01
7	Variable Return on Net Investment in Road Property per GTM, Including Overhead	$0.000840	= 5 x 6
8	Variable Return on Net Investment in Road Property per Million GTM	$840	= 7 x 1,000,000
9	Total Variable Road Property Costs	$1,157	= 4 + 8

Source: BNSF Reply electronic workpaper "BNSF XCEL REPLY PRG.123," tab "URCS"

Allocation of Revenues for Recovery of Road Property Costs in Step #1 of DARA
Eagle Butte - Parish Route

SARR Segments

9 MGT	
58 MGT	
136 MGT	
125 MGT	
44 MGT	

Eagle Butte Mine, WY
26 miles
Belle Ayr Mine, WY
50 miles
Converse Jct, WY
92 miles
Wendover, WY
103 miles
Northport, NE
119 miles
Pawnee Jct, CO

33,798 MGTM*

x $1,157 per MGTM**

= $39.10 Million

÷ 390 Route Miles

= $100,266 per Route Mile

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43 MGT   259 miles

Minnequa, CO

341 miles

36 MGT

Residual RR Segments Traversed by Cross-Over Traffic

Amarillo, TX

180 miles

22 MGT   Oklaunion, TX

18 MGT   199 miles

Ft. Worth, TX

12 MGT   128 miles
Temple, TX

9 MGT   77 miles
Somerville, TX
90 miles

7 MGT   Parish, TX

33,969 MGTM*

x $1,157 per MGTM**

= $39.30 Million

÷ 1,274 Route Miles

= $30,856 per Route Mile

* Does not include Xcel issue traffic
** See Attachment 2

▶ DARA allocates <u>more than three times</u> ($100,266 / $30,856 = 325%) the revenue per route mile for recovery of road property costs to the higher-density SARR segments than to the relatively lower-density residual RR segments traversed by cross-over traffic.

Allocation of Revenues for Recovery of Road Property Costs
in Step #1 of DARA
Eagle Butte - Chicago Route

SARR Segments

9 MGT

58 MGT

136 MGT

125 MGT

Eagle Butte Mine, WY
26 miles
Belle Ayr Mine, WY
50 miles
Converse Jct, WY
92 miles
Wendover, WY
103 miles
Northport, NE

28,539 MGTM*

x $1,157 per MGTM**

= $33.02 Million

÷ 271 Route Miles

= **$121,842** per Route Mile

Residual RR Segments Traversed by Cross-Over Traffic

81 MGT

47 MGT

35 MGT

28 MGT

13 MGT

363 miles

Lincoln, NE   Ashland, NE   320 miles
24 miles

Burlington, IA
45 miles

Galesburg, IL
127 miles

Chicago, IL

44,693 MGTM*

x $1,157 per MGTM**

= $51.71 Million

÷ 879 Route Miles

= **$58,809** per Route Mile

* Does not include Xcel issue traffic
** See Attachment 2

▲ DARA allocates more than two times ($121,842 / $58,809 = 207%) the revenue per route mile for recovery of road property costs to the SARR segments than to the residual RR segments traversed by cross-over traffic.

Allocation of Base-Year Revenues in BNSF's Reply Testimony Using DARA

Base-Year Cross-Over Revenues Allocated on the Basis of Variable Costs in Step #1 of DARA

	WCC SARR Segments	Residual BNSF Segments	Total
Total Variable Costs for Cross-Over Movements ($000s) 1/	$183,438	$538,334	$721,772
Variable Road Property Costs ($000s) 2/	$39,354	$130,888	
Total Route Miles 3/	397	5,390	
Variable Roadway Costs per Route Mile	**$99,127**	**$24,284**	

Base-Year Cross-Over Revenues Allocated in Step #2 of DARA

	WCC SARR Segments	Residual BNSF Segments	Total
Total Contribution for Cross-Over Movements ($000s) 4/	$37,591	$157,359	$194,950

Total Base-Year Cross-Over Revenues Allocated by DARA

	WCC SARR Segments	Residual BNSF Segments	Total
Total Revenue for Cross-Over Movements ($000s)	$221,029	$695,693	$916,722
Variable Costs as a Percent of Revenue			79%

1/ BNSF Reply electronic workpaper, "Restated WCRR Traffic Exhibits2.xls," tab "2001Revenues"
2/ Includes URCS return on net investment and depreciation costs. Does not include maintenace of way operating expenses. Based on applying URCS unit costs to gross ton-miles. "Restated WCRR Traffic Exhibits2 Revised.xls," tab "2001Revenues"
3/ WCC miles from BNSF Reply electronic workpaper, "Restated WCC Traffic.xls," tab "Mile Matrix;" residual BNSF miles from BNSF Reply electronic workpaper, "Off-SARR Density.xls," summarized in "Off-SARR Density Revised.xls," tab "Miles"
4/ BNSF Reply electronic workpaper, "Restated WCRR Traffic Exhibits2.xls," tab "2001Revenues," excluding revenues from issue traffic